



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

December 24, 2009

Curt Crandall
Senior Training Manager
Pacific Bell Directory
One AT&T Center 40-R-6
St. Louis, MO 63101

Dear Mr. Crandall:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET06-0234 for the period February 7, 2006 through February 6, 2008.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

cc: Peggy Kaytis, Training Specialist

PACIFIC BELL DIRECTORY

Agreement No. ET06-0234

Final Audit Report

For The Period

February 7, 2006 through February 6, 2008

Report Published December 24, 2009

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AUDITOR'S REPORT

Summary

We performed an audit of Pacific Bell Directory, Agreement No. ET06-0234, for the period February 7, 2006 through February 6, 2008. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period June 15, 2009 through June 18, 2009.

The Employment Training Panel (ETP) paid the Contractor a total of \$1,101,095. Our audit supported that \$1,098,495 is allowable. The balance of \$2,600 is disallowed and must be returned to ETP. The disallowed costs resulted from one trainee who did not meet full-time employment requirements.

AUDITOR'S REPORT (continued)

Background

Pacific Bell Directory is a subsidiary of American Telephone and Telegraph, Inc. (AT&T) that performs integrated advertising and telephone directory functions that include publishing traditional print directories along with maintaining web-based directory services.

This Agreement was the first between Pacific Bell Directory and ETP. According to the Contractor, maintaining a high performance workplace is critical for continued success in a highly competitive advertising marketplace. The company produces products and services that require input from customers and team members in many locations. Coordinating communications and information from these sources can be cumbersome. Employees need to be able to work together in a collaborative environment. Thus, trainees needed to receive training according to their job function within the company to streamline workflow for greater efficiency and develop a more effective high performance workplace. Therefore, this Agreement provided for training in Business Skills, Computer Skills and Continuous Improvement.

This Agreement allowed Pacific Bell Directory to receive a maximum reimbursement of \$1,169,506 for retraining 1,451 employees. During the Agreement term, the Contractor placed 1,230 trainees and was reimbursed \$1,101,095 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Pacific Bell Directory. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Pacific Bell Directory complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

AUDITOR'S REPORT (continued)

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Finding and Recommendation Section of our report, our audit supported \$1,098,495 of the \$1,101,095 paid to the Contractor under this Agreement was allowable. The balance of \$2,600 was not earned according to the terms of the Agreement and must be returned to ETP.
Views of Responsible Officials	The audit findings were discussed with Curt Crandall, Senior Training Manager, at an exit conference held on June 18, 2009. Mr. Crandall agreed to bypass a draft report and proceed directly to the final review report.
Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

AUDITOR'S REPORT (continued)

Stephen Runkle
Audit Manager

Fieldwork Completion Date: June 18, 2009

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET06-0234 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

PACIFIC BELL DIRECTORY

AGREEMENT NO. ET06-0234

FOR THE PERIOD

FEBRUARY 7, 2006 THROUGH FEBRUARY 6, 2008

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 1,101,095</u>	
Costs Disallowed:		
Full-Time Employment Requirement Not Met	2,600	Finding No. 1
Total Costs Disallowed	<u>\$ 2,600</u>	
Training Costs Allowed	<u><u>\$ 1,098,495</u></u>	

* See Finding and Recommendation Section.

FINDING AND RECOMMENDATION

FINDING NO. 1 – Full-Time Employment Requirement Not Met	<p>Pacific Bell Directory received reimbursement for one Job No. 1 trainee who was not employed full-time during their post-training retention period per Agreement requirements. As a result, we disallowed \$2,600 in training costs claimed for this trainee.</p> <p>Exhibit A, paragraph VII. A. of the Agreement between ETP and Pacific Bell Directory states, “Each trainee must be employed full-time, at least 35 hours per week, with the Contractor for a period of at least ninety (90) consecutive days immediately following the completion of training. The period shall be completed no later than the last day of this Agreement...”</p> <p>Pacific Bell Directory reported that Trainee No. 1 completed a post-training retention period from July 17, 2007, through October 14, 2007, and earned an hourly wage rate of \$18.85 per hour. Payroll records provided by Pacific Bell Directory show that Trainee No. 1 earned a base hourly wage rate of \$18.85 per hour and worked an average of 24 hours per week during her retention period. Thus, Trainee No. 1 failed to work an average of at least 35 hours per week during the post-training retention period. Furthermore, EDD base wage information also supports Trainee No. 1 was not employed full-time during the reported retention period or any subsequent 90-day period up to the Agreement end date.</p>
Recommendation	Pacific Bell Directory must return \$2,600 to ETP. In the future, the Contractor should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006